# FISCAL NOTE

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| **Bill #:** **SB0068** | **Title:** **Revising certain statutes relating to the State Compensation Insurance Fund** |
| **Primary Sponsor:** **Dale Mahlum** | **Status:** **As introduced** |

Sponsor signature Date

Dave Lewis, Budget Director Date

## Fiscal Summary

Specific fiscal impact of this bill cannot be determined. There will be no fiscal impact to the general fund.

| Yes | No | | Yes | No | |
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| | X | Significant Local Gov. Impact | | X | Technical Concerns |
| | X | Included in the Executive Budget | | X | Significant Long-Term Impacts |

## Fiscal Analysis

ASSUMPTIONS:

1. Exempts the State Fund from the requirements of the Montana Procurement Act for procurement of insurance related services.
2. Injured workers and their insurers will not be liable for payment of medical services to the injured workers that are not authorized through the managed care organizations (MCOs) or preferred provider organizations (PPOs) which the insurers contract with.
3. The sections related to paying dividends, setting rates, and pricing levels are technical modifications to existing statute and do not have a fiscal impact.

FISCAL IMPACT:

There will be a fiscal impact resulting from the enhancement of tools available to the State Fund for maintaining financial stability in rate setting and establishment of appropriate surplus levels. Fiscal impact will also result from the elimination of expenses resulting through the procurement process, however a specific level of fiscal impact cannot be determined.

TECHNICAL NOTES:

The following information provides specific detail related to the separate elements of this bill.

**Exemption from Montana Procurement Act for insurance-related services.**

1. Exempts the State Fund contracts entered into for the procurement of insurance related services from the Montana Procurement Act.
2. The State Fund is operating in a competitive insurance market.
3. Expenses of the State Fund are paid for through policyholder premiums.
4. Insurance-related services consist of, but are not limited to, premium audits, loss control consulting, insurance producer services, legal services, claims consulting services, underwriting services, and other State Fund insurance services.

**Providing that injured workers and their insurers are not required to pay unauthorized medical expenses.**

5. Insurers contract with Managed Care Organizations (MCOs) and Preferred Provider Organizations (PPOs) to provide medical services to injured workers.
6. Injured workers' are required to receive medical services from the MCO or PPO designated by the insurer.
7. MCOs and PPOs contract with member physicians to provide services to injured workers.
8. It is the responsibility of the member treating physician to ensure that the medical services provided to injured workers are medical services authorized for payment through the MCO or PPO contracts.
9. Injured workers under the care of MCO or PPO member physicians are not liable for payment of unauthorized medical services they receive.
10. Insurers of injured workers under the care of MCO or PPO member physicians are not liable for payment of unauthorized medical services the injured workers receive.
11. This legislation should reduce costs by ensuring that only authorized services are provided however the total fiscal impact cannot be determined.

**Clarify law related to the payment of dividends.**

12. Specifies the State Fund Board of Directors as the body authorized to determine the appropriate surplus in accordance with 39-71-2330, MCA, upon consultation with an independent actuary prior to declaration of a dividend. To accommodate customer business needs, the amendments will allow the use of policy dates other than the current July 1 effective date now used for all policies.

**Requiring the use of the National Association of Insurance Commissioners' (NAIC) risk-based capital requirements in setting rates.**

13. Current law requires the State Fund to amass and maintain, by July 1, 2003, a surplus of 25% of the annual premium. Insurance industry standards would correlate this to a 4 to 1 premium to surplus ratio.
14. In FY95 the State Fund amassed the required surplus.
15. The State Fund's premium to surplus ratio has not decreased below the 4 to 1 requirement since FY95.
16. The State Fund's current required 4 to 1 premium to surplus ratio does not reflect the standards of the National Association of Insurance Commissioners or the workers' compensation insurance industry.
17. The NAIC risk-based capital requirements consider various risks: pricing inadequacy, reserving inadequacy, asset default, changing interest rates, and general business risk. The NAIC requirements also consider the type of insurance written, the industry and company track records, and the interaction of different risk and diversification effects.

18. The State Fund's surplus level using the NAIC risk-based capital requirements would be maintained in excess of surplus levels over the amount produced by the risk based capital requirements for a casualty insurer. This requirement is consistent with requirements of a property casualty insurer in Montana.
19. The State Fund surplus level meets the proposed requirement.

**Eliminating additional higher pricing level for employers who do not satisfactorily implement safety programs and eliminates 20% surcharge on high loss employers in order to allow utilization of other underwriting programs pursuant to law and administrative rule.**

20. The current programs were placed in law in 1993 when the State Fund did not have an underwriting function. The State Fund now has underwriting capability and the same or better results can be reached with other underwriting programs. The elimination of these two statutory requirements will also make Montana State Fund's products comparable to other insurers and provide consistency for agents and employers.
21. The State fund has 42 current active policies with the 20% high loss surcharge. As of 6/30/98 the State Fund had 24,043 policyholders.
22. The total estimated fiscal year 1999 premium of the 42 policies with the high loss surcharge is $319,089. Of this total premium amount $53,182 is attributable to the 20% surcharge.
23. The State Fund currently has 54 accounts with scheduled rating debits, not including the 42 accounts with a high loss surcharge. This demonstrates the State Fund has other underwriting programs in place to price an account appropriately based on the merits of the risk.